

### 3 Summary of Policy Recommendations

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This paper has discussed some of the issues and challenges that governments of resource-rich countries face in ensuring that the extractive industries can transform society for the good and avoid instability and conflict. While there are some common issues at central versus local levels – the need for strong, well-functioning institutions being a prime example – the nature of the challenges are generally distinct and the government response should be tailored accordingly. Centrally, for example, governments must concentrate on maintaining macroeconomic and socio-political stability. At the local level, governments must respond to the wide range of socio-economic and environmental challenges relating to the presence of extractive activities that may be unique to the local setting, in often remote rural areas. This concluding section summarises some of the key policies that can bring long-term benefit to the country without creating significant additional burdens for the government, and which are in line with international standards and the expectations of EI companies.

**i) Apply the ‘frameworks-institutions-governance’ concept**

In many countries, adequate legal and regulatory regimes for EI activity already exist. The problem is often that there is insufficient capacity at local and regional levels to enforce the rules and laws. Ensuring that there is a sufficient number of well-trained government staff, empowered to carry out their jobs according to widely-observed principles of good governance, is therefore a critical element of ensuring that EI activity leads to positive rather than negative impacts. An internal review to find out areas where legislative and regulatory complexity exceeds implementation capacity – tax collection may be one example – can help to highlight where additional investment is necessary.

**ii) Simplify the regulatory and legislative framework**

An over-complex regulatory and legislative framework can hinder a country's long-term development for two reasons: there may be a lack of capacity to enforce it, and the private sector may be unable to adhere to it. Simplifying the fiscal framework can make it easier for an overstretched civil service to collect tax revenues. Likewise, simplifying the regulations surrounding artisanal and small-scale mining activity, including business registration, can lead to improved working conditions as well as making it easier to enforce other areas of legislation relating to health and safety.

**iii) Encourage transparency in EI activity**

Overseeing EI activity is highly complex for any government, particularly one where the extractive sector constitutes the main form of economic activity. By governing EI activity – for example the basis of deals, the size of revenue flows,

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the rationale behind heritage funds – on the basis of transparency rather than secrecy, a government can help to safeguard the long-term interests of the country. This is because transparency can improve public accountability and lead to strengthened governance. Publicly signalling a willingness to implement the Extractive Industries Transparency Initiative (EITI) is a useful starting point. As described in the Cook Islands case study, some governments are now enshrining the tenets of the EITI – that is, the publication by EI companies of taxes and royalties paid, and the publication by governments of EI revenues received – in national law.

**iv) Ensure sound revenue management according to the five Ss**

This paper sets out the constituent parts of sound revenue management policy in terms of the following ‘five Ss’: sterilisation, stabilisation, socio-economic development, saving for future generations, and safeguarding of the revenue. These include measures to help avoid the symptoms of Dutch disease, as discussed in the Trinidad and Tobago case study.

**v) Pay special attention to social, economic and environmental impacts in regions and communities where extraction occurs**

Requiring companies to adhere to international good practice in social and environmental management can help to minimise impacts on local communities surrounding EI activity. This is particularly important because these communities often face more intrusion than anywhere else in the country, for example due to resettlement, strain on local services, environmental issues such as dust, noise and waste disposal, and other social and cultural disturbances created by the arrival of a modern large-scale EI company. Particularly important is the presence of well-resourced local and regional government agencies operating according to widely-agreed principles of good governance.

**vi) Emphasise the importance of upstream procurement opportunities rather than solely pursuing ‘value-addition’ through downstream economic linkages**

Encouraging economic diversification is also critical in regions that host EI activity. Building the capacity of local companies to enable them to access the supply chains of large-scale EI companies is a sound long-term investment. Working with clusters of companies and suppliers and encouraging linkages between large firms and the local private sector are two well-established approaches. As with other areas of EI policy, the government need not always fund the cost of programmes alone, nor assume sole responsibility for implementation: there is often money available from donors and/or EI companies themselves. Downstream economic linkages should also be actively pursued once the feasibility and economic viability of the venture have been determined.

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This is not an exhaustive list but at least indicates the kind of long-term solutions that are available and that are likely to find broad acceptability.<sup>14</sup>

In conclusion there are, undoubtedly, many past instances where EI activity has failed to deliver on its promise to society. However, there is also evidence, as well as an emerging consensus, that the extraction of natural resources can have a positive transformative effect on society.

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<sup>14</sup> The Appendix shows twelve precepts from the Natural Resource Charter, a document compiled by an independent group of internationally-respected economists, lawyers and political scientists. The full version of the charter discusses in more detail many of the issues in this paper, and is available at [www.naturalresourcecharter.org](http://www.naturalresourcecharter.org)

